

Financial Statements
Emerson Township
Gratiot County, Michigan

March 31, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name EMERSON TOWNSHIP	County GRATIOT
Fiscal Year End MARCH 31, 2006	Opinion Date DECEMBER 6, 2006	Date Audit Report Submitted to State JANUARY 8, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

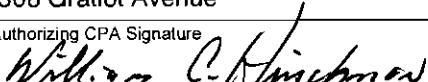
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123		
Street Address 308 Gratiot Avenue		City Alma	State MI	Zip 48801
Authorizing CPA Signature 		Printed Name William C. Hirschman		License Number 1101016179

Emerson Township
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March 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Emerson Township
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Emerson Township (the Township), as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2006, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2006, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-III and budgetary comparison information on pages 16-18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Emerson Township Management's Discussion and Analysis

We, the Township Board of Emerson Township, offer citizens of the Township our financial statements with this narrative overview and analysis of the financial activities of Emerson Township for the fiscal year ended March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Emerson Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances.

The statement of net assets on page 1 presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities on page 2 presents information showing how the Township's net assets changed during the most recent fiscal year.

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Township include general government, public safety, public works, and community and economic development.

The Township adopts an annual appropriated budget for its general fund, fire fund and road fund. A budgetary comparison statement has been provided for the general fund, fire fund and road fund to demonstrate compliance with this budget.

Emerson Township Management's Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Emerson Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fire fund is used by the Township to account for the resources generated and expenses paid for fire protection. The road fund is used by the Township to account for the resources generated and expenses paid for road repair and maintenance.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's Budget to Actual comparison. Required supplementary information can be found on pages 16 - 18 of this report.

Financial Highlights

The unrestricted net assets of Emerson Township exceeded its liabilities at the close of the most recent fiscal year by \$242,191, which may be used to meet the Township's ongoing obligations to the citizens and creditors.

At the close of the current fiscal year, Emerson Township's governmental funds reported ending fund balance of \$242,191, an increase of \$57,946 from the 2004 fund balance.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$184,263 or 281% percent of the total general fund expenditures.

The Township's total expenditures increased \$18,006 compared to 2004 expenditures.

Emerson Township Management's Discussion and Analysis

The Township's Funds

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities.

We have the general fund which pays for most of the Township's governmental services and a fire fund and road fund which are set up to show revenues and expenditures pertaining to fire protection and road repair and maintenance only.

General Fund Budgetary Highlights

Over the course of the year, the Township Board may amend the budget to take into account events during the year. For the fiscal year ended March 31, 2006, no amendments were made to the originally adopted budget. Budget-to-actual statements are shown on pages 16-18.

Cash and Cash Equivalents

At the end of March 2006, the Township had \$227,849 invested in a combination of CD's and cash deposits. \$38,182 was uninsured and uncollateralized. Deposits that exceed FDIC coverage limits are held at local banks. The Township Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank accounts.

Economic Factors and Next Year's Budget and Rates

The unemployment rate still remains high in the State of Michigan but the Township's budget for next year includes a conservative increase in State Revenue Sharing payments. Also considered was the increase in interest rates on the Township's CDs for the fiscal year 2006-2007.

Requests for Information

The financial report is designed to provide a general overview of Emerson Township's finances for all those with an interest in the Township's finances. Questions concerning any of the additional financial information should be addressed to the Supervisor of the Township in writing at 1576 N. Mikus Road, Ithaca, Michigan, 48847, or by telephone at (989) 875-2273.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Emerson Township
Statement of Net Assets
March 31, 2006

	Total Governmental Funds
Assets	
Current assets	
Cash and cash equivalents	\$227,849
Property taxes receivable	6,307
Due from other governments	<u>10,985</u>
Total current assets	<u>245,141</u>
Noncurrent assets	
Fixed assets - net	<u>-</u>
Total assets	<u>245,141</u>
Liabilities	
Current liabilities	
Accounts payable	<u>2,950</u>
Total current liabilities	<u>2,950</u>
Net Assets	
Investment in capital assets, net of related debt	-
Net assets - unrestricted	<u>242,191</u>
Total net assets	<u><u>\$242,191</u></u>

See accompanying notes to the financial statements.

Emerson Township
Statement of Activities
for the Year Ended March 31, 2006

		<u>Program Revenues</u>	
Functions	<u>Expenses</u>	<u>Charges for Services</u>	Net (expense) revenue and changes in net assets
Governmental activities			
Legislative	\$3,677	-	(\$3,677)
General government	51,289	-	(51,289)
Public safety	34,327	-	(34,327)
Public works	52,086	-	(52,086)
Community and economic development	<u>3,165</u>	<u>\$305</u>	<u>(2,860)</u>
Total governmental activities	<u>\$144,544</u>	<u>\$305</u>	(144,239)
General revenues			
Property taxes			88,877
State grants			66,491
Interest and rentals			3,000
Other			<u>4,644</u>
Total general revenues			163,012
Change in net assets			18,773
Net Assets - beginning of year			<u>223,418</u>
Net Assets - end of year			<u>\$242,191</u>

See accompanying notes to the financial statements.

FUND FINANCIAL STATEMENTS

Emerson Township
Balance Sheet
Governmental Fund
March 31, 2006

	MAJOR FUNDS			Total Governmental Funds
	General Fund	Fire Fund	Road Fund	
Assets				
Cash and cash equivalents	\$173,853	\$27,024	\$26,972	\$227,849
Property taxes receivable	2,375	1,966	1,966	6,307
Due from other governments	10,985	-	-	10,985
Total assets	<u>\$187,213</u>	<u>\$28,990</u>	<u>\$28,938</u>	<u>\$245,141</u>
Liabilities				
Accounts payable	<u>\$2,950</u>	<u>-</u>	<u>-</u>	<u>\$2,950</u>
Fund balance				
Fund balance - unreserved	<u>184,263</u>	<u>\$28,990</u>	<u>\$28,938</u>	<u>242,191</u>
Total fund balance	<u>184,263</u>	<u>28,990</u>	<u>28,938</u>	<u>242,191</u>
Total liabilities and fund balance	<u>\$187,213</u>	<u>\$28,990</u>	<u>\$28,938</u>	<u>\$245,141</u>

See accompanying notes to the financial statements.

Emerson Township
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of Governmental Activities
on the Statement of Net Assets
for the Year Ended March 31, 2006

Total fund balance - governmental fund	\$242,191
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There are no reconciling items during the 2006 fiscal year.

Net assets of governmental activities	<u><u>\$242,191</u></u>
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See accompanying notes to the financial statements.

Emerson Township
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds
for the Year Ended March 31, 2006

	MAJOR FUNDS			Total Governmental Funds
	General Fund	Fire Fund	Road Fund	
Revenues				
Taxes and penalties	\$33,097	\$27,890	\$27,890	\$88,877
State grants	66,491	-	-	66,491
Charges for services	305	-	-	305
Interest and rentals	2,907	79	14	3,000
Other	4,634	-	10	4,644
Total revenues	107,434	27,969	27,914	163,317
Expenditures				
Legislative	3,677	-	-	3,677
General government	43,654	-	-	43,654
Public safety	-	34,327	-	34,327
Public works	7,502	-	44,584	52,086
Community and economic development	3,165	-	-	3,165
Other	7,635	-	-	7,635
Total expenditures	65,633	34,327	44,584	144,544
Excess (deficiency) of revenues over expenditures	41,801	(6,358)	(16,670)	18,773
Other financing sources (uses)				
Transfers in	-	7,415	17,613	25,028
Transfers out	(25,028)	-	-	(25,028)
Excess (deficiency) of revenues and other sources over expenditures and other uses	16,773	1,057	943	18,773
Fund balance, beginning of year	167,490	27,933	27,995	223,418
Fund balance, end of year	<u>\$184,263</u>	<u>\$28,990</u>	<u>\$28,938</u>	<u>\$242,191</u>

See accompanying notes to the financial statements.

Emerson Township
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Year Ended March 31, 2006

Net change in fund balances - total governmental funds	\$18,773
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There are no reconciling items during the 2006 fiscal year.

Change in net assets of governmental activities	<u><u>\$18,773</u></u>
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See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards Adopted

In fiscal year 2006, the Township adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township's statement of net assets includes both noncurrent assets and noncurrent liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the Township has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Emerson Township
Notes to Financial Statements
March 31, 2006

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the Township's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

Reporting Entity

The Township is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in a reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."* In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities* normally supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

Emerson Township
Notes to Financial Statements
March 31, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Emerson Township
Notes to Financial Statements
March 31, 2006

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the Township as a trustee or agency capacity on behalf of others and, therefore, are not available to support Township operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township's operations. The Township currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Township reports the following major funds:

Governmental Funds - The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Fire Fund* accounts for resources generated to pay for fire services provided to Township residents. The *Road Fund* accounts for resources generated to pay for repairs and maintenance for roads within the Township.

Budgetary Data

Budgets are adopted by the Township for the general fund, the fire fund and the road fund. The budgets are adopted and prepared on the modified accrual basis of accounting. The budgets are adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Property Taxes

Property taxes are levied on each December 1st on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14th with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For Township operations, the 2005 Taxable Valuation of the Township totaled \$28,137,386 on which 0.98430 mills were levied for operations and 0.99610 mills were levied for fire protection and road maintenance.

The total 2005 levy for the Township was \$33,097 for operations, \$27,890 for fire protection and \$27,890 for road maintenance.

Emerson Township
Notes to Financial Statements
March 31, 2006

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits are in accordance with statutory authority.

Receivables

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Emerson Township
Notes to Financial Statements
March 31, 2006

Capital Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets of the proprietary funds are reported in the statement of net assets of the proprietary funds. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Township does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & Improvements	25
Equipment & Furnishings	5

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Emerson Township
Notes to Financial Statements
March 31, 2006

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2006, the Township incurred expenditures in excess of the amounts appropriated as shown on pages 16-18 of this report.

NOTE 3. DETAILED NOTES

Cash and Cash Equivalents

At March 31, 2006, the carrying amount of the Township's cash and cash equivalents was \$227,849 as follows:

Cash Deposits	\$104,439
Certificates of Deposit	123,410
Total	\$227,849

At year end, the bank balance was \$238,182, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Due From Other Governments

The amount of "Due From Other Governments" represents state revenue sharing received after year end.

Due From/To Other Funds

The amount of "Due From/To Other Funds" represents property taxes collected and held in the agency fund that are due to the general fund.

Emerson Township
Notes to Financial Statements
March 31, 2006

Capital Assets

A summary of changes in general fund capital assets follows:

	April 1, 2005	Additions	Disposals	March 31, 2006
Buildings & Improvements	\$302,715	-	-	\$302,715
Equipment & Furnishings	1,061	-	-	1,061
Sub-totals	\$303,776	-	-	\$303,776
Accumulated Depreciation	(\$303,776)	-	-	(\$303,776)
Totals	-	-	-	-

Depreciation expense was charged to the general government function.

Employees Retirement System – Defined Contribution Pension Plan

Plan Description

Emerson Township participates in the John Hancock Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Township of Emerson Group Pension Plan. Three members of the Township Board are eligible to participate in the plan. As of March 31, 2006, the pension plan's current membership was 3 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions. The plan covers all elected officials or appointments to elected positions and these individuals become eligible to participate in the plan on the first entry date coincident with or immediately following the date of employment. Entry into the plan occurs on each April 1.

Emerson Township
Notes to Financial Statements
March 31, 2006

Funding Policy

The Township is required to make annual contributions based on salaries as follows:

Salary	Contribution
\$999 and less	\$150
\$1,000 – 1,999	\$300
\$2,000 – 2,999	\$450
\$3,000 – 3,999	\$600
\$4,000 and over	\$750

Employees may make voluntary contributions up to a maximum of 10% of their salary. Contributions made either by employees or the employer is vested 100% immediately and is nonforfeitable. During the year the Township's actual contributions amounted to \$0. There were no voluntary contributions made during the year.

Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Building Inspection Department Fund

Public Act 245 of 1999 was signed on December 28, 1999 and took immediate effect. This act amends the State Construction Code Act (Public Act 230 of 1972) and requires, among other things, the establishment of a special revenue fund to account for the revenues and expenditures associated with issuing building permits, examining plans and specifications, inspecting construction before issuing permits, and issuing certificates of use and occupancy.

The Township has not established this fund because the fee structure is not intended to recover the full cost and the Township has the ability to track the full cost and revenues of this activity without creating a separate fund.

The revenues generated under this act for the year ended March 31, 2006 were \$305. The expenditures incurred for this activity during the year ended March 31, 2006 were \$3,165.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Emerson Township
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
for the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$30,600	\$30,600	\$33,097	\$2,497
State grants	65,000	65,000	66,491	1,491
Charges for services	800	800	305	(495)
Interest and rentals	2,050	2,050	2,907	857
Other	3,000	3,000	4,634	1,634
Total revenues	101,450	101,450	107,434	5,984
Expenses				
Legislative	4,000	4,000	3,677	323
General government	46,000	46,000	43,654	2,346
Public works	6,000	6,000	7,502	(1,502)
Community and economic development	5,000	5,000	3,165	1,835
Other	13,800	13,800	7,635	6,165
Total expenditures	74,800	74,800	65,633	9,167
Excess (deficiency) of revenues over expenditures	26,650	26,650	41,801	15,151
Other Financing Sources (Uses)				
Operating transfers out	(30,718)	(30,718)	(25,028)	5,690
Total other financing sources (uses)	(30,718)	(30,718)	(25,028)	5,690
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(4,068)	(4,068)	16,773	20,841
Fund balance, beginning of year	167,490	167,490	167,490	-
Fund balance, end of year	\$163,422	\$163,422	\$184,263	\$20,841

See accompanying notes to the financial statements.

Emerson Township
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Fire Fund
for the Year Ended March 31, 2006

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	Final Budget
Revenues				
Taxes and penalties	\$24,688	\$24,688	\$27,890	\$3,202
Interest	-	-	79	79
Total revenues	24,688	24,688	27,969	3,281
Expenses				
Public safety				
Fire protection	27,500	27,500	33,427	(5,927)
Rescue Fees	7,500	7,500	900	6,600
Total expenditures	35,000	35,000	34,327	673
Excess (deficiency) of revenues over expenditures	(10,312)	(10,312)	(6,358)	3,954
Other Financing Sources (Uses)				
Operating transfers in	11,812	11,812	7,415	(4,397)
Total other financing sources (uses)	11,812	11,812	7,415	(4,397)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	1,500	1,500	1,057	(443)
Fund balance, beginning of year	27,933	27,933	27,933	-
Fund balance, end of year	\$29,433	\$29,433	\$28,990	(\$443)

See accompanying notes to the financial statements.

Emerson Township
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Road Fund
for the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$24,688	\$24,688	\$27,890	\$3,202
Interest	-	-	14	14
Other	-	-	10	10
Total revenues	24,688	24,688	27,914	3,226
Expenses				
Public Works				
Highways, streets, bridges	45,094	45,094	44,584	510
Total expenditures	45,094	45,094	44,584	510
Excess (deficiency) of revenues over expenditures	(20,406)	(20,406)	(16,670)	3,736
Other Financing Sources (Uses)				
Operating transfers in	20,406	20,406	17,613	(2,793)
Total other financing sources (uses)	20,406	20,406	17,613	(2,793)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	943	943
Fund balance, beginning of year	27,995	27,995	27,995	-
Fund balance, end of year	\$27,995	\$27,995	\$28,938	\$943

See accompanying notes to the financial statements.

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF REVENUES AND EXPENDITURES

Emerson Township
General Fund
Statement of Expenditures
for the Year Ending March 31, 2006

Legislative

Township board	
Salaries and wages	<u>\$3,677</u>
Total legislative	<u>3,677</u>

General Government

Supervisor	
Salaries and wages	10,470
Miscellaneous	<u>3,982</u>
Total supervisor	14,452
Clerk	
Salaries and wages	6,906
Accounting and auditing	720
Supplies	1,614
Miscellaneous	<u>618</u>
Total clerk	9,858
Treasurer	
Salaries and wages	6,906
Supplies	<u>1,767</u>
Total treasurer	8,673
Board of Review	
Salaries and wages	657

See accompanying notes to the financial statements.

Emerson Township
General Fund
Statement of Expenditures
for the Year Ending March 31, 2006

Building and Grounds	
Utilities	\$3,813
Repairs and maintenance	<u>246</u>
Total building and grounds	4,059
Cemetery	
Miscellaneous	<u>5,955</u>
Total general government	<u>43,654</u>
Public works	
Drains at large	
Contracted services	<u>7,502</u>
Community and economic development	
Zoning board	
Salaries and wages	2,780
Miscellaneous	<u>385</u>
Total Community and economic development	<u>3,165</u>

See accompanying notes to the financial statements.

Emerson Township
General Fund
Statement of Expenditures
for the Year Ending March 31, 2006

Other

Payroll taxes	\$4,313
Insurance and bonds	3,205
Retirement	<u>117</u>

Total other	<u>7,635</u>
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Total expenditures	<u><u>\$65,633</u></u>
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See accompanying notes to the financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Township Board
Emerson Township
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Emerson Township (the Township) as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

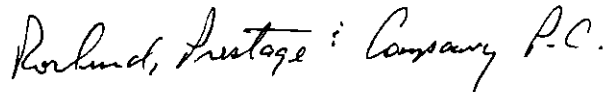
In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Township in a separate letter dated December 6, 2006.

This report is intended solely for the information and use of management and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2006



MANAGEMENT LETTER

To The Board Of Trustees
Emerson Township
Gratiot County, Michigan

In planning and performing our audit of the financial statements for Emerson Township for the fiscal year ended March 31, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 6, 2006 on the financial statements of Emerson Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

ROSLUND, PRESTAGE AND COMPANY, P.C.
Certified Public Accountants

December 6, 2006

Emerson Township
Management Letter

Status of Prior Year Comments and Recommendations

We were pleased to see that management has implemented some of the recommendations we included in our previously issued Management Letter.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

Prior Year Comment and Recommendation

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Board of Trustees maintain a level of involvement in the financial affairs of the organization to provide appropriate oversight and independent review functions.

Current Status

The recommendation we suggested in our previously issued Management Letter has not been fully implemented as of the date of this report.

Prior Year Comment and Recommendation

Currently a person independent of the bank reconciliation function does not review these reconciliations.

We recommend that one or more members of the Township Board, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements. The reviewer(s) should then initial and date the reconciliation to indicate the review was completed.

We also recommend that a member of the Board open the bank statements and review them for any unusual transactions before giving them to the person responsible for performing the reconciliations. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

Current Status

The recommendation we suggested in our previously issued Management Letter has not been fully implemented as of the date of this report.

Emerson Township
Management Letter

Council Oversight

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Board of Trustees maintain a level of involvement in the financial affairs of the organization to provide appropriate oversight and independent review functions. Those functions should include, but are not limited to:

- Opening bank statements and reviewing for any unusual items before forwarding on to the person responsible for the reconciliation.
- Reviewing all bank reconciliations to determine that they are completed timely, are mathematically accurate, agree to the bank and to the financial statements, are signed and dated by the preparer, and that all unusual items are fully documented.
- Review the general ledger on a periodic basis that corresponds to the board meetings (i.e., monthly or quarterly).
- Review and approve all disbursements, preferably on a monthly basis. This process should be performed in conjunction with the review of the check register. Disbursements can be approved after-the-fact, but all disbursements should be directly approved by the board.
- Periodically inspect documentation supporting the disbursements.

All review procedures should be documented with the initials or signature of the reviewing person and the date reviewed.

Qualifying Statement

Under the Revised Municipal Finance Act (Public Act 34 of 2001) the Michigan Department of Treasury has the authority to protect the credit of the state and its municipalities. One of the tools used by Treasury to monitor the fiscal health of the state's municipalities and debt issuance is the "Qualifying Statement". Consequently, pursuant to this act the Township is required to submit a Municipal Finance Qualifying Statement Worksheet (Qualifying Statement) with the State of Michigan each year. The Qualifying Statement is due to the State within 180 days from the end of the fiscal year. Qualifying statements are required to be submitted electronically and can be found at www.michigan.gov/treasury.

Adopt a Capitalization Policy and Expense Small Items

We noted during our audit that there is no established guideline concerning which property and equipment acquisitions are to be capitalized. We recommend that the Township establish a capitalization policy whereby all purchases over a minimum threshold (i.e. \$1,000) and having a useful life of one year or more are capitalized. This policy should be in writing and communicated to those who code property invoices to ensure the policy is consistently followed. Also, we recommend that capitalized expenditures be coded to an account separate from those expenditures which will not be capitalized. This will result in a more uniform treatment of property and equipment and allow the Township to continue to assess current expenditures along with identifying significant assets that will later be capitalized.

Develop an Accounting Policies and Procedures Manual

We recommend that management establish a standard accounting and operating manual documenting the policies to be followed and procedures to be performed. The procedures should be documented in writing in the form of narratives. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to policies.
- Aid in exchange of management ideas.
- Provide the Township with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

In addition to the written procedures, the manual should include comprehensive checklists and flowcharts to be used by all staff, as necessary. The checklists and flowcharts can be helpful in communicating procedures performed and documentation requirements in a format that is easy to read and helps to see the "flow" of activity.

The manual should also include a chart of accounts, detailed explanations of account content, and definitions of job authority and responsibility.

Emerson Township
Management Letter

Filing System

During our review of the disbursements we found that the original source documents supporting the disbursements (i.e., invoices, contracts, purchase orders, etc.) were not easily accessible and, in one instance, never located. This is due, in part, to storing files in more than one location, including in the personal residences of Township employees.

We recommend that all original source documentation be kept at one location, preferably at the Township Hall in a secure file cabinet or in a separate room that is not accessible to the general public. Copies of this information can be kept at other locations if necessary.

This will result in a more secure and complete system of record keeping and allow for easier accessibility to all members of the Township Board.

Computerize Check Writing

The Township is currently preparing checks manually. We recommend that management review its current process of preparing checks and consider utilizing a computerized check writing system that will electronically prepare and print the checks.

Retirement Plan

During the year ended March 31, 2006 there were no contributions made to the Township of Emerson Group Retirement Plan. The Township is required to make annual contributions to the plan based on a predetermined earnings schedule and the employee's annual earnings. There were no voluntary contributions withheld from the employees, therefore the annual contribution for the year ended March 31, 2006 was limited to the Township's obligation.

In previous years the plan administrators have billed the Township for their estimated required contribution. This was not done for the current fiscal year and thus the reason that the contribution was not made.

We recommend that management establish procedures that ensure that all contributions are made in a timely manner.

Emerson Township
Management Letter

Filing of Annual Reports

The annual financial audit (and the related form F-65) of the Township was due to the State Of Michigan within 180 days from the end of the fiscal year. Failure to file the annual audit report and form F-65 in a timely manner may result in the delay or loss of state funding.

We recommend that management take the necessary steps to assure that future audits are filed timely.